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The Emersion of Low-Profit Limited Liability Companies: A Case Study of the Implementation of Hybrid Organizations in Louisiana and North Carolina

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Executive Summary

A new business entity designed for social entrepreneurs to embrace is gaining acceptance in a number of states, including Louisiana and North Carolina. The new entity, the low-profit limited liability company (L3C), is a byproduct of the current two options of operating, as a traditional private company or a nonprofit organization, not being an ideal fit for the entities being established by social entrepreneurs.

Trying to take advantage of both options' advantages, and reduce the limitations, L3Cs were created to afford the assurances found in the private sector while still delivering funding often found in the nonprofit sector. A common source of funding in the nonprofit sector comes from private foundations, which can issue grants or program-related investments. The legislation allowing for the creation of L3Cs in both Louisiana and North Carolina are written in a demeanor that encourages private foundations to distribute funds to L3Cs via program-related investments.

The legislation does this by using the same language found in the Internal Revenue Service (IRS) code that qualifies a private foundation's choice to issue a program-related investment. The qualifying stipulations the IRS enforces require the investment's primary purpose to advance the foundation's charitable objectives and should not be used for the production of income as a significant purpose, and the funds cannot be used directly or indirectly to lobby or for political purposes. The legislation by the two states being discussed takes these three IRS stipulations and uses them to qualify an entity as an L3C. The legislation in both states require an L3C to significantly further

the accomplishment of one or more charitable purposes while the production of income and appreciation of property cannot be a significant purpose of the L3C. Additionally, an L3C cannot seek to accomplish any political or legislative lobbying purposes.

To examine this policy issue in more detail, an exploratory case study was used to provide the basis for determining if L3Cs are, in fact, doing what they are established to do, which is to serve a social cause while not placing a significant purpose on making a profit. Understanding this fact will enable the researcher to ascertain whether or not this social-business model should be supported in other states.

The purpose of this study is to explore how two L3Cs in Louisiana and two L3Cs in North Carolina have embraced the new L3C entity and benefited from program-related investments made by private foundations. While there is evidence to support the fact that some of these L3Cs have benefited from funding from private foundations, it was not clear that the three stipulations qualifying a L3C's existence were being upheld. Due to the fact that these entities are housed in the private sector, they are not required by the states to produce financial records or annual reports ensuring they are funding a charitable purpose without placing a significant purpose on making a profit. Due to this minimal oversight and the vague language used to qualify an L3C and program-related investments, the L3C model is not recommended for use in other states unless the issues of oversight and vague language can be corrected.

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Introduction

The nonprofit sector is entrenched in how it operates, making a distinctive path that does not follow the private, nor public sector models of operation. This division is in place on one side to avoid the pitfalls that can be associated with the private sector, and the greed that goes hand-in-hand with solely focusing on the bottom line. On the other hand, the division is in place because the nonprofit sector more often than not is filling the gaps in service delivery that have been created by the public sector's bureaucracies. This distinctive path has left many organizations in the nonprofit sector with new financial gaps of their own; gaps that are traditionally filled through donations, grants, and government contracts, but have run dry with the onset of the economic climate that has settled across the globe following the financial collapse of 2008.

The existence of these internal gaps has caused a number of nonprofit organizations to adopt practices that were previously reserved for the private sector, and are primarily focused on earning income (James 2003). While these practices have been in use in the nonprofit sector prior to the economic downturn, they were not used to the extent currently being seen in the sector. This new trend in the nonprofit sector of depending on earned income to support an organization's mission has been described as the commercialization of the sector (James 2003).

Commercialized nonprofit organizations are criticized for embracing non-traditional nonprofit practices, but choose to do so in order to deliver on the mission of the organizations and to remain operational (Young 2002). Applying these private sector business practices to a nonprofit organization has caused a belief that these organizations are experiencing mission drift (Eisenberg 2004). Hervieux (2010) details how nonprofit organizations are being advised to implement traditional private sector business practices to create stability and sustainability for these organizations, regardless of the implications.

This two-toned climate in the nonprofit sector regarding commercialized operations has caused uneasiness in the sector and has driven a number of social entrepreneurs to the private sector. The private companies established by these social entrepreneurs choose to contribute a portion of profits to a social initiative as part of their business practices. While there are success stories for social entrepreneurs in the private sector, there are also pitfalls for choosing to take this path into the private sector. The tax benefits received by nonprofit organizations are nowhere to be found, and funding from grants and foundations is almost never available to ensure a social cause is fully funded. Additionally, there is limited accountability to ensure that these social corporations are in fact carrying out the social mission they claim to be conducting (Artz, Gramlich, and Porter 2012).

With both the funding difficulties and a negative view posed on nonprofit organizations embracing commercialized practices coupled with the potential struggles that can be found in forming a traditional for-profit company, social entrepreneurs have begun to create new organizations that focus on earning income and delivering on a social mission while still being able to receiving some of the funding benefits commonly found in the nonprofit sector (Kelley 2009). Similar to nonprofits, programs that are aimed at filling a social need or address a social problem in our society are the primary purpose driving these new social entities, with profit taking a backseat. These latest developments have been embraced in some states and are being housed in the private sector with a business entity known as a low-profit limited liability company (L3C).

There are a number of differences between the nonprofit sector and the public sector where low-profit limited liability companies operate. Generally, nonprofit organizations operate with two primary purposes; to deliver on the mission of the organization, and to conduct fundraising efforts to help sustain the organization so it can continue to deliver on its mission. Companies working in the private sector are primarily focused on the bottom line so that a profit can be generated from the business. Low-profit limited liability companies take a bit from both sectors and have created a new way to make a profit and deliver on a social issue at the same time (Blum 2008). They are intended to operate like a private business, but choose to split a portion of its profits to help a social need.

The emergence of this different option, a hybrid model, designed for social entrepreneurs is the focus of this study, and the new nature of this model in public policy gives to the relevancy of the research. Additionally, the possibility of an L3C emerging as an alternative to the traditional nonprofit model lends to the need for this study. Gaining an understanding of how these organizations are being utilized in the two selected states is important to analyze prior to implementing the model in other areas, including the State of Georgia.

This research is aimed at discovering how low-profit limited liability companies have been embraced in two states in the Southeastern United States. This research intends to answer the following questions: 1) How have the states of Louisiana and North Carolina approached the use of the low-profit limited liability company? 2) How have individuals taken advantage of the socially focused business model in these two states? 3) Does the theory behind the socially focused business model (L3C) actually work to provide a social need first, and a profit second? If not, what could be some possible recommendations to ensure the driving theory behind L3Cs is carried out in the real world? and, 4) After review of the cases, does the L3C business model seem to be more effective, efficient, or economical at delivering on a social mission as compared to a traditional nonprofit model?

In order to answer these questions, this research paper discusses the relevant literature on the subject of low-profit limited liability companies, and uses an exploratory case study method to show how the new social enterprise business entity is being practiced currently. A comparative analysis of the adaption of four separate L3Cs will be performed in the case study with hopes of providing an answer to the research questions. The selection process of the four L3Cs used in the case study is discussed in the methodology section. In sum, Conclusions and recommendations will be drawn from the discussion of the cases.

Literature Review

The spread of the low-profit limited liability company is noticeable in the Untied States. With its roots beginning in Vermont in 2008, a total of nine states have now adopted policy allowing businesses to choose to form a low-profit limited liability company (Blum 2008). These states include the previous mentioned Vermont and

Illinois, Louisiana, Maine, Michigan, North Carolina, Rhode Island, Utah, and Wyoming. A number of other states have proposed the concept, but it was either voted down or was never called to vote (Americans for Community Development 2012).

Forming an L3C in these nine states is much like forming a private business or nonprofit organization, with paperwork that must be filed with the proper state department to be reviewed before being recognized as an entity. There are certain limitations that the L3C must follow however, and for the purposes of this research, Louisiana and North Carolina's legislation will be reviewed to determine the limits that are placed on L3Cs. Both Louisiana and North Carolina file the L3C classification under the subset of a traditional limited-liability company (Senate Bill 308, 2009; House Bill 1421, 2010). In both states, three limitations are imposed on L3Cs as follows:

1. An L3C must significantly further the accomplishment of one or more charitable purposes as described by the IRS internal revenue code of 1986.
2. The production of income and appreciation of property cannot be a significant purpose of the L3C.
3. An L3C cannot seek to accomplish any political or legislative lobbying purposes (Senate Bill 308, 2009; House Bill 1421, 2010).

Subscribing and adhering to these three limitations will enable an L3C to be created and continue to exist and serve its social initiative.

In order to fully understand the intricacies of an L3C, it has been compared to other entities that currently exist in the United States by Artz and Sutherland (2010) to set itself apart from what are the traditional options for companies or organizations wanting to file for existence. There are essentially four different types of firms that an entity could fall under, beginning with the traditional private firm that is primarily focused on the bottom-line and the goal of the organization is to maximize profits. These private firms can choose to be sole proprietorships, limited liability companies (LLC), or corporations. On the other end of the spectrum is a nonprofit organization, which focuses not only on delving a mission, but also on generating enough funds to deliver its mission.

In the middle of these two described entities there are two additional options. The traditional middle ground entity lies in the private sector and is generally a firm that focuses on corporate social responsibility (Artz and Sutherland 2010). In a large number of cases, these firms have a few different arms that are focused solely on profit and then they contribute a very small portion of those profits to their foundation arms for giving back to the communities in which they operate (Graafland 2002). The firms that subscribe to corporate social responsibility practices generally do so after years of making profits as a traditional for-profit company.

Between the companies that do place a focus on corporate social responsibilities and the nonprofit organizations lies a fourth entity, that of the social enterprise (Artz and Sutherland 2010). An L3C is classified as a social enterprise. These social enterprises have been coined a hybrid of traditional nonprofit organizations and for-profit companies as they use the marketplace to generate funds for providing a social benefit rather than solely focusing on producing a profit.

There are additional differences that describe the distinction of the L3C that are more specific in nature than the description that has been provided. One distinctive feature of the L3C is its ability to receive money from private foundation, much like nonprofits (Kelley 2009, 341). Private foundations are required to distribute five percent of its holdings each year to nonprofit organizations or to program-related investments (Artz and Sutherland 2010). Traditionally, the program-related investment (PRI) was not an option exercised by foundations very often because there was no way to guarantee that the Internal Revenue Service would view the allocation as a true PRI. Therefore, to avoid this risk, foundations typically would not allocate funds using this clause, and they stick to primarily distributing via grants. Being able to take advantage of a PRI is imperative to L3Cs and the ability for them to succeed. According to Artz, Gramlich, and Proter (2010), there are three standards that must be met for a foundation's investment to qualify as a PRI:

1. The investment's primary purpose must be to advance the foundation's charitable objectives,
2. Neither the production of income nor the appreciation of property can be a significant purpose, and
3. The funds cannot be used directly or indirectly to lobby or for political purposes (Artz, Gramlich, and Proter 2010, 282).

There are comparisons to be drawn between the limitation imposed by states on L3Cs to be able to exist and the limitation listed above that are imposed on foundations that wish to issue PRIs. The limitations L3Cs have to follow and the constraints foundations have to abide by when making PRIs essentially abide by the same language. This is intentional, because one of the primary drivers behind the existence of L3Cs is the ability to obtain PRIs from private foundations.

PRIs can be issued to L3Cs as either investments or loans. Investments are made with the understanding that the return will not be one equal to a fair market value, since the L3C is not focused on profit. Loans are made with below-market interest rates, usually around one to two percent (Artz and Sutherland 2010, 283).

L3Cs and nonprofit organizations share an additional funding source, grants. Both foundation and government grants can be used as a source of funding for the social need being delivered by the L3C. However, just as with the grants being issued to nonprofits, they often come with a number of restrictions and limitations (Kelley 2009).

On the other side of the spectrum, L3Cs share the ability found in the private sector to receive funding from private investors (Bishop 2010). Private investors looking to contribute to the social cause of an L3C are able to obtain a stake if the L3C chooses to do so. It is noted by Artz and Sutherland (2010) that these private investors should be aware of the fact that L3Cs do not focus on turning a profit and therefore should understand that the return on the investment will not likely equal a fair market value. The ability of the L3C to raise capital in this way is the key difference that allows for the hybrid distinction to be placed on these social enterprises.

A difference between the private and nonprofit sector deals with how money is spent within the two entities. Nonprofit organizations, including commercialized nonprofits, are required to use the benefits of their tax-exempt status to accomplish their mission, and almost all donations made to the organizations are tax exempt for the donors. They are able to pay their full-time employees, but excess funds are not distributed to anyone working for the organization or to those who sit on the board of the nonprofit; the funds must be used to support the mission. Private companies are not limited by how they choose to spend money generated from doing business as long as they follow the tax code imposed on them by the Internal Revenue Service.

Low-profit limited liability companies are able to receive revenue streams just like organizations operating in the private and nonprofit sector. However, unlike nonprofit organizations, the L3Cs are taxed on their profits just like other companies in the private sector, and stakeholders in a low-profit limited liability companies are allowed to benefit financially from excess funds (Bishop 2010). That is, they can disburse excess funds to the owners, stakeholders, and employees of the company (Kelley 2009).

Kelley (2009) points out how the new hybrid option that is available in a number of states has seemingly created a fourth sector, although these social enterprises are part of the private sector. This statement points to the need for the new hybrid option to exist. A discussion regarding the conditions associated with a social entrepreneur choosing to form as a nonprofit organization or a traditional private company was presented in the introduction of this paper, but there are a few more examples that will be addressed.

Commercialized nonprofit organizations exist and have had success, so why not force the social entrepreneurs into this sector? The primary reason this practice is not being adopted is because of the difficulty with receiving funding to start a nonprofit organization. Receiving grant money is difficult for the existing organization, let alone one that is just beginning. It has been shown that it cost between 22 and 43 cents for every dollar acquired through grant funding (Wood 2010, 70). For a start-up organization, this is a cost that most cannot incur. This is one of the primary reasons for the need of the L3C distinction, it allows for start-up capital to be generated from a number of different resources.

If the nonprofit sector is not an ideal fit for the social entrepreneurs, why not force them to create their social venture as traditional private sector companies? There are a number of issues that can arise when housing social ventures under a traditional private sector form, the most important being the mission of the social ventures. Page and Katz (2012) discuss the example of Ben and Jerry's Ice Cream. The ice cream company was formed with a number of social goals it wished to preserve as it conducted its business, very similar to how social entrepreneurs wish to conduct business as an L3C. In Ben and Jerry's efforts to start and grow its business, it chose to sell shares in the company to generate capital. This allowed the company to grow and become successful. Once the company had built its brand and began to make a profit, an offer was extended to purchase the majority of the shares of the company. Corporate laws, which are entrenched with a focus on producing the largest amount of profit for shareholders of companies, forced the sale of Ben and Jerry's and subsequently removed the owners of the company who enforced the social cause that was created when they formed.

The governance of the low-profit limited liability company is an issue that will be addressed as well. By looking at the limitations on L3Cs by the states, they must not place a significant amount of emphasis on profit formation. This limitation can be interpreted a number of ways and the more important issue deals with how this statute will be implemented within the L3C and how it is proven. Smiddy (2010) discusses the issue of how company leadership must be willing to juggle the limited return expected by investors along with the social mission of the company. The author continues to deliberate what the limited return rate should be, and questions if this will be a uniformed rate for all L3Cs. These governance issues are real and need to be understood, but the existence of these issues is primarily due to the young nature of the L3C option.

Artz and Sutherland (2010) point out the resistance to the L3C entity being seen from some in the nonprofit community. The distaste comes from the notion that L3Cs are forming to take away the money distributed from private foundations each year, funds usually reserved for nonprofit organizations. The money that is desired from the private foundation by the L3Cs is for investments and loans. In theory, these funds would be paid back and, in turn, generate more revenues to be used to issue grants by the foundations.

Additional opposition has been voiced regarding the L3C as a legal entity entirely. Callison and Vestal (2010) argue that L3Cs do not reduce the risk associated with foundations issuing program-related investments (PRI). The authors claim that traditional LLCs and L3Cs pose the same risk on private foundation when they choose to issue a PRI. They describe what the L3C has tried to do by matching the limitations of the PRIs with the state law limitations on L3Cs as a "sleight of hand" (Callison and Vestal 2010, 293).

Methodology

Using an exploratory case study, this analysis explores how both Louisiana and North Carolina adopted the socially focused business model known as the low-profit limited liability company. This case study begins with a description of how both states approached the adoption of the L3C entity. This is done through the examination of both states' policies, including the laws that allow for L3Cs to exist.

This analysis hopes to answer the following research questions: 1) How have the states of Louisiana and North Carolina approached the use of the low-profit limited liability company? 2) How have individuals taken advantage of the socially focused business model in these two states? 3) Does the theory behind the socially focused business model (L3C) actually work to provide a social need first, and a profit second? If not, what could be some possible recommendations to ensure the driving theory behind L3Cs is carried out in the real world? and, 4) After the review of cases, does the L3C business model seem to be more effective, efficient, or economical at delivering its mission like a traditional nonprofit model?

To conduct the case study, L3Cs within each state were identified to help answer the research questions proposed in this study. The main criterion used to make the selection is the length of time the L3C has been functioning, which is a minimum of 12 months. Since the research was performed in the late summer and fall of 2012, the cut-off date used was June 1, of 2011. A list for each state was produced showing the L3Cs names, and numbers were assigned to each individual L3C, the list for North Carolina and Louisiana can be found in Appendix I and Appendix II, respectively. Using this stratified sample that excludes any L3C that was not formed prior to June 1, 2011, two random L3Cs were picked from each list using a random number generator to make the selection. Four L3Cs were selected for the purpose of conducting the exploratory case study in this research paper.

Data collected for these organizations include any publicly attainable business filings, annual reports, and other forms of publically accessible knowledge regarding the selected organizations. The collected data help in describing the L3C and its mission, and provides information on revenues, and the social mission of the organization.

This study's aim is to provide the basis for determining if L3Cs are, in fact, doing what they are established to do, which is to serve a social cause first and then make a profit second. Understanding this fact will enable the researcher to ascertain whether or not this business model should be supported in the State of Georgia.

Limitations of this research design do exist. The small sample size used in this case study could not provide a clear picture of the functioning of L3Cs in the entire state. This has an effect on the conclusions that can be drawn from the case study.

North Carolina and L3Cs

The State of North Carolina has allowed for the low-profit limited liability company model to be used since Governor Bev Perdue signed Senate Bill 308 into law on August 3, 2010 (Andrews 2010). Since that time forty-three L3Cs have been formed in the state. The legislation that was passed allowing for the formation of L3Cs in North Carolina enforces the stipulation to qualify: the primary purpose of the entity must be to accomplish a charitable or educational purpose, producing an income or the appreciation of property is not a significant purpose of the company (although evidence of significant income or appreciation of property, by itself, does not qualify as for violation of this stipulation), and the organization may not seek to accomplish a political or legislative purpose (Senate Bill 308, 2009). These stipulations in the bill are, of course, nearly exactly the same stipulations required by the IRS for foundations to adhere to when making a program-related investment (PRI).

The bill was sponsored by Republican state senator Stan Bingham who was quoted as saying, “It allows big foundations…to give low-interest loans to entrepreneurs” (Cohen 2010). The state legislators were hoping this new entity would breath life back into the struggling furniture and textile manufacturing industry (Bailey and Foster, III

2010). While the intent behind the support for the bill may have been aimed at supporting established manufacturing industries, it seems the opportunity to utilize the L3C entity has been embraced by others outside of the furniture and textile business, as evident in the cases presented below.

The Case of Carolina Ground, L3C

Carolina Ground was founded as an L3C by a group of bakers in the Asheville, NC area who were fed up with paying high prices for flour (North Carolina Organic Bread Flour Project). One of the downfalls brought on by the economic collapse, also referred to as the great recession, in 2008 was a rise in prices of raw materials, like flower. This was a result of a number of factors, but the rise in cost of raw materials was primarily the result of the increase in demand for investing in the commodities markets. Due to this influx in price of flour, the members behind Carolina Ground saw an opportunity to help the bakers in their area by creating an entity that bridged the gap between the local grain farmers in North Carolina and the bakers who had a need for the grains after they had been refined.

According to the articles of organization (Appendix III) filed with the State of North Carolina, Carolina Ground was formed in October of 2010 with the intent to operate with a business and charitable purpose in accordance with the state legislation. The mission driving the L3C is to provide a link between the farmer, miller, and baker in the Carolinas (North Carolina Organic Bread Flour Project). Providing this mission will bring a solid level of confidence and sustainability for both the farmers and bakers being served by Carolina Ground.

The funding needed to start the L3C is discussed on Carolina Ground's website and details how its organization is supported by North Carolina Tobacco Trust, Sante Fe Tobacco, and the Golden Leaf Foundation. The level of investment or support is not known due to the fact that Golden Leaf is a private company, as is all L3Cs. They are not required to report their investors or what type of financial support the investors have provided.

Carolina Ground did partake in a Kickstarter campaign to raise funds from the public to support the goal and mission of the organization. According to Kickstarter's website, they are a funding platform for creative projects that allows for individuals to invest in a project. The investment is generally rewarded with a return promised by the company they are funding. The return is usually the product the company is seeking funding for so they can begin producing the product. In the case of Carolina Ground, the Kickstarter campaign provided a loaf of bread, a pastry, or a bag of flower in which Carolina Ground had a hand in producing. The return, products, is dependent on the level of investment by each individual. On the Kickstarter website, Carolina Ground stated that it specifically is raising money to match a grant it had received. It is clear that Carolina Ground has received some support from grants, but it is unclear if it was able to benefit from a program-related investment (PRI) from a foundation.

The mission of Carolina Ground is clearly socially focused and charitable in nature. In theory, without the effort of Carolina Ground, local bakers would be paying elevated prices for flour due to the global market price for the raw material. However, Carolina Ground does not publicly provide any information that supports this notion of reduced prices. Since L3Cs are private companies and are not required to publish financial records, it is unclear whether or not Carolina Ground holds the social mission it is conducting above the drive to produce a profit.

With limited information on the details of the extent to which Carolina Ground is delivering on its mission, it is difficult to make a clear determination on whether or not the L3C model that Carolina Ground follows is more effective, efficient, or economical than that of a nonprofit performing the same mission. To make this argument, a comparison to a nonprofit performing the same mission would be best suited for making these determinations. However, assuming that the administrative costs were equivalent between the two different models, it could be argued that a nonprofit would better deliver on the mission due to the fact that all the revenues generated from the sale of the refined flour would be put back into the organization to continue delivering on the mission, where a L3C would have the option to remove some of the proceeds for personal gain. That is, if the L3C would have been able to get off the ground without being able to attract investors as a private company.

The Case of Rescue Mission Thrift Stores, L3C

Serving as a revenue-generating arm for the Western Carolina Rescue Ministries, the Rescue Mission Thrift Stores serve the community by offering affordable merchandise to be purchased by the general public at one of its retail locations in Asheville, North Carolina. The Rescue Mission Thrift Stores have been operating as an L3C since filing articles of organization (Appendix IV) with the State of North Carolina in March of 2011 with the intent to operate with a business and charitable purpose in accordance with the state legislation.

According to its website, the Rescue Mission Thrift Stores operate just as most other thrift stores choose to operate. It relies on in-kind donations of used clothing, furniture, toys, and household items from the public and local businesses, which it uses as goods to stock the thrift store shelves and sells them back to the public in a retail setting. The proceeds generated from these sales are then used to support the mission of the Western Carolina Rescue Mission. According to its website, the work of the Western Carolina Rescue Mission is to, "provide rescue, recovery, and restoration in Jesus' name. Each of the three components of our ministry, rescue, recovery, and restorations, is about meeting people in crisis where they are, caring for them with dignity and restoring them to healthy, productive lives."

Looking at the financial statement for 2011 of Western Carolina Rescue Ministries, it is stated in its statement of activities (Appendix V) that the thrift store contributed just over $254,000 for the entire year. While this contribution is certainly beneficial to the mission of the nonprofit organization, it is not known if this is the total proceeds generated by the L3C arm for 2011. Since the L3C arm, Rescue Mission Thrift Stores, is a private entity, reporting of financial information is not required. Again, there are no data to evaluate whether or not the mission of the L3C is being placed ahead of the motivation to generate a profit for shareholders, if there are any at all.

The effectiveness shown by the funds listed in the statement of activities shows that the mission of the Rescue Mission Thrift Stores is being delivered. Would a nonprofit be more effective at delivering on the same mission? Perhaps, there is certainly a possibility that the established nonprofit organization, Western Carolina Rescue Mission, needed to utilize private investors or program-related investments from foundations in order to begin the thrift store operations. The efficiency of the thrift store operation may be a bit more streamlined without the need of reporting financial information and making sure compliance is being met in accordance with federal and state nonprofit regulations. These same characteristics show the potential that an increase in efficiency could also be used to argue that operating the thrift store as an L3C could be more economical as well.

Louisiana and L3Cs

The State of Louisiana has allowed for the low-profit limited liability company model to be used since August of 2010 with the passage of House Bill 1421 (House Bill 1421, 2010). Much like the State of North Carolina, the legislation that was passed in Louisiana allowing for the formation of L3Cs enforces the following three stipulation to qualify as an L3C: the entity must significantly further a charitable or educational purpose, producing an income or the appreciation of property is not a significant purpose of the company (although evidence of significant income or appreciation of property, by itself, does not qualify as for violation of this stipulation), and the organization may not seek to accomplish a political or legislative purpose, including lobbying (House Bill 1421, 2010). Again, as the case of North Carolina shows, these stipulations in the bill are representative of the same stipulations required by the IRS for foundations to adhere to when making a program-related investment (Weiler 2011).

The Case of Rural Revolution, L3C

Seeing the need to help women in different parts of the world was the idea for the creation of Rural Revolution, according to its website. Getting its start in October of

2010, according to its filings with the State of Louisiana (Appendix VI), Rural Revolution's mission is to empower female entrepreneurs, locally and globally. The company does this through forging a connection between jewelry makers in developing regions of the world and with the sales ambassadors it enlists to distribute the jewelry in the United States. This structure provides benefit for both the artisan jewelry makers who supply Rural Revolution and the sales ambassadors who make money from the sales of the items.

Currently, Rural Revolution is purchasing goods from jewelry makers in Peru, India, Ethiopia, and Kenya. One of the separate programs it funds through the sale of the jewelry is focused on instilling the entrepreneurial spirit in females in the New Orleans area who are just receiving their GED (Lopez 2012). The program is intended to reach out to the individuals pursuing their GED and encourage them to use jewelry making as a path to entrepreneurship; empowering them to become independent and serve as leaders in their community.

Rural Revolution does not list any financial statements publicly, nor does it disclose any investors or partners it has forged to support in its mission. Being a private company, it is within its rights to withhold this information if it so desires. In view of this stance, it cannot be determined whether Rural Revolution does, in fact, hold its social mission above the business mission of making a profit. Additional data would also be needed to ascertain if the L3C model being used would be more effective, efficient, or economical at delivering the mission as a traditional nonprofit organization would. Although, it could be argued that with the inability of a nonprofit to distribute any gains to its stakeholders, it would better serve the mission discussed in this case.

The Case of Sustainable Environmental Enterprises, L3C

As a solar company founded with the intent to provide solar panel systems to single-family homes, multi-family homes, and commercial structures, Sustainable Environmental Enterprises is committed to making renewable energy available to everyone. According to the filings with the State of Louisiana (Appendix VII), Sustainable Environmental Enterprises has been in the business of providing renewable solar energy systems since November of 2010.

The solar systems it installs allow the customer to remain hooked up to the power grid; this is done for two reasons. Staying hooked up to the grid allows the customer to sell the excess power generated from the solar system back to the power company. Also, in case the solar system is not producing enough power at a given time, the remaining connection to the power grid allows for the customer to use power from the grid. While this give-and-take relationship remains between the customer and the power grid, the net power use is usually neutral when averaged throughout the year.

To accomplish the social mission of the L3C, Sustainable Environmental Enterprises provides a monthly payment plan to pay for the solar system it installs in a person's dwelling. Providing this service allows for an average income household to afford to install a solar system in the home. As illustrated in the chart below, one can see how the fixed monthly bill from Sustainable Environmental Enterprises often is equivalent to, or even less than, an average electric bill for a household.

Electricity Costs	Monthly	In a Year
Current Average Electric Bill	$170	$2,040
Fixed Solar Electric Bill with SEE	$150	$1,800
Savings	$20	$240

Cost of Solar Electricity System	Years 1-5	Years 6-10	Years 11-25
Cost Per Year	$1,800	$0	$0

While financial information for Sustainable Environmental Enterprises is not publicly available, it does list The Rockefeller Foundation as a partner in the enterprise. This could possibly signify that it has been able to secure a program-related investment (PRI) from The Rockefeller Foundation.

The mission of Sustainable Environmental Enterprises seems to be out in front of the profit making motives of private business due to the fact that it is providing an expensive product and service with built in options for payment that benefit customers, the beneficiaries of its mission. It is hard to imagine a nonprofit delivering on the same mission of providing solar energy systems to individuals, so possibly this is an ideal example of how an L3C can exist and provide where a nonprofit may never reach.

Conclusion

The states of North Carolina and Louisiana are leading the charge for the development of low-profit limited liability companies in the Southeastern United States.

At this point, it is evident that there is an interest to deliver on a social mission and conduct business in the private sector. However, it is not clear whether this option being afforded to social entrepreneurs is preferred over the options of forming as a traditional private company or a nonprofit organization.

Perhaps the possibility of receiving program-related investments from private foundations is the driving force behind the creation of L3Cs in both states. This is also something that is not clear and cannot be drawn from this research. With the decision of the states to house L3Cs as private entities with no requirements to report financial information or investor information, it is not known if any of the cases explored in this study has actually benefited from program-related investments loaned out by private foundations.

The lack of accountability required by the states is another issue of concern when trying to evaluate the performance of L3Cs. One of the requirements to form and maintain an L3C entity is that it must not produce an income or the appreciation of property as a significant purpose of the company. How can this specific stipulation be enforced by the states if no specific requirements are detailed in the legislation? What constitutes a significant purpose? The vague language included in the legislation in both states does not lend to the benefit of the individual L3Cs if private foundations and the Internal Revenue Service (IRS) are not convinced that this program-related investment stipulation is not being adhered to by the states in a reasonable and defined manner. The blame for this can also be placed on the IRS for having the same vague language in its rules and regulations for defining when a program-related investment is acceptable. The states are simply following along the path that the IRS has set forth, but it does not remove the risk private foundations face when making program-related investments under this broad, non-specific language.

In order to truly open up the markets to program-related investments from private foundations, either the states or the IRS need to take the lead in clearly defining a standard of measure for what constitutes putting the social mission of the low-profit limited liability company ahead of the profit motivations behind the motivation to succeed. The IRS would be the best entity to perform this task as the language it uses could be transferred universally among the state legislation. If states are leading the charge, it would be very possible that different states would pass different thresholds resulting in what could be a number of prolonged rulings by the IRS on program-related investments.

The option of delivering a social mission as an L3C is not only appealing to social entrepreneurs, but it also provides an option that could be more effective, efficient, and economical than traditional private business entities and nonprofit organizations. Having the ability to reject the traditional private business practices of only focusing on the bottom line certainly provides enough evidence to lend the argument against traditional business models, just refer back the situation faced by the Ben and Jerry’s Ice Cream Company discussed in the literature review section. In regards to nonprofit organizations, the potential for L3Cs to have a sustainable revenue source from the business operations it conducts to fund the social mission is an advantage most nonprofits are not able to say they benefit from in today’s world. Funding is everything to nonprofits, and at times when funding is lacking, so are programs and other efforts to deliver the mission of the organization.

A more in-depth investigation on the effectiveness of programs that L3Cs are using to deliver their missions would provide a better catalyst to evaluate the effectiveness of the L3Cs. If this suggested research produced usable data, evaluating the difference between L3Cs and nonprofits could be conducted in a more detailed way.

One thing is clear after conducting this case study; social entrepreneurs do need different options when forming the type of organizations they wish to develop. Whether it remains as a separate private entity option as it currently is, or a fourth sector is created, the need is there and it should be addressed as a public policy issue. This author recommends the creation of a separate fourth sector where low-profit limited liability companies, B-corporations, and other social focused entities can thrive and succeed in a responsible and transparent manner. Bringing this level of responsibility and transparency upon these social driven entities is the only way to attract program-related investments from private foundations and also gain the trust of the public.

Appendices

Appendix I

List of L3Cs in North Carolina

1. Asheville Community Design Lab L3C
2. Better Dayzes L3C
3. Carolina Ground, L3C
4. CClarks L3C
5. Christian Simplicity, L3C
6. Collegiate Global Network, L3C
7. Decorum Specialty Care L3C
8. Fed by Faith, L3C
9. Fiberactive Organics, L3C
10. Godspeed Institute, L3C
11. Jubilee 2010, L3C
12. Little Bear NC L3C
13. Living Machines Systems, L3C
14. The Long Leaf Pine Society, L3C
15. My Time TV, L3C
16. Oilseed Community L3C
17. The Org. L3C
18. PPRE-FOREVERGREEN, L3C
19. Reaching the Hearts of Women, L3C
20. Renewable Energy Design Group, L3C
21. Shared-Net-Work, L3C
22. SWEET WOOD STUDIOS, L3C
23. Team Wellness Challenge, L3C
24. WCRM Thrift Stores, L3C
25. Wesley Storehouse L3C
26. Wishadoo L3C

Appendix II

List of L3Cs in Louisiana

1. RICHLAND PARK L3C
2. SHEAUX FRESH SUSTAINABLE FOODS, L3C
3. AMPELONARTIST, L3C
4. SAILES HUNTING CLUB, L3C
5. GEAUX WORK, A LOW PROFIT LIMITED LIABILITY COMPANY
6. PATRICK'S SOUPS & GUMBOS ETC LLC
7. MANGO C. BUSH FAMILY L3C
8. RURAL REVOLUTION L3C
9. UPENDO L3C
10. LIVE MUSIC NOLA, L3C
11. MDP EVENTS, L3C
12. EVERYONE DESERVES A CHANCE FOUNDATION L3C
13. BANDA ANCHA PRODUCTIONS, L3C
14. ECO-IMPACT, L3C
15. SLAYDON CONSULTANTS, L3C
16. OYSTER TREE CONSULTING, L3C
17. ECO-LIFESTYLES, L3C
18. PROVIDENCE HOUSE PROPERTIES, L3C
19. THE CENTER MANAGEMENT COMPANY, L3C
20. MATTER L3C
21. SUSTAINABLE ENVIRONMENTAL ENTERPRISES, L3C
22. SIMMS CATERING L3C
23. SWAN RIVER COMMUNITY CENTER: YOGA AND SEVA L3C
24. ISLAND CHAMPION LEAGUE, L3C

Appendix III

Carolina Ground, L3C Articles of Organization

C201029800546

SOSID: 1173504
Date Filed: 10/29/2010 1:04:00 PM
Elaine F. Marshall
North Carolina Secretary of State
C201029800546

State of North Carolina
Department of the Secretary of State

Low-Profit Limited Liability Company
ARTICLES OF ORGANIZATION

Pursuant to §57C-2-20 of the General Statutes of North Carolina, the undersigned does hereby submit these Articles of Organization for the purpose of forming a limited liability company.

1. The name of the limited liability company is: ____Carolina Ground, L3C____

2. If the limited liability company is to dissolve by a specific date, the latest date on which the limited liability company is to dissolve: (*If no date for dissolution is specified, there shall be no limit on the duration of the limited liability company.*)

3. The name and address of each person executing these articles of organization is as follows: *(State whether each person is executing these articles of organization in the capacity of a member, organizer or both. Note: This document must be signed by all persons listed here).*

   Jennifer Lapidus- member and organizer- 98 Broad Street, Asheville, NC 28801

4. The street address and county of the initial registered office of the limited liability company is:

   Number and Street __98 Broad Street______________________________

   City, State, Zip Code ____Asheville, NC 28801_ County ____Buncombe_____

5. The mailing address, ***if different from the street address,*** of the initial registered office is:
   same as above

6. The name of the initial registered agent is Jennifer Lapidus

7. Principal office information: (*Select either a or b.*)

   a. ☒ The limited liability company has a principal office.

   The street address and county of the principal office of the limited liability company is:

   Number and Street__128 Bingham Road, Suite 350_______________________________
   City, State, Zip Code___Asheville, NC 28806__________County____Buncombe__

   The mailing address, ***if different from the street address***, of the principal office of the corporation is:

   98 Broad Street, Asheville, NC 28801

   b. ☐ The limited liability company does not have a principal office.

8. Check one of the following:

______(i) ***Member-managed LLC***: all members by virtue of their status as members shall be managers of this limited liability company.

__X__(ii) ***Manager-managed LLC***: except as provided by N.C.G.S. Section 57C-3-20(a), the members of this limited liability company shall not be managers by virtue of their status as members.

9. This company is formed for both a business purpose and a charitable purpose that requires operation of the company in accordance with the requirements of N.C.G.S. Section 57C-2-01(d).

10. Any other provisions which the limited liability company elects to include are attached.

11. These articles will be effective upon filing, unless a date and/or time is specified:

____

This is the 19 day of October, 2010

____

Signature

Jennifer Lapidus, member and organizer

Type or Print Name and Title

Appendix IV

WCRM Thrift Stores, L3C Articles of Organization

C201106000012

SOSID: 1195083
Date Filed: 3/23/2011 3:34:00 PM
Elaine F. Marshall
North Carolina Secretary of State
C201106000012

State of North Carolina
Department of the Secretary of State

Low-Profit Limited Liability Company
ARTICLES OF ORGANIZATION

Pursuant to §57C-2-20 of the General Statutes of North Carolina, the undersigned does hereby submit these Articles of Organization for the purpose of forming a limited liability company.

1. The name of the limited liability company is: WCRM Thrift Stores, L3C

2. If the limited liability company is to dissolve by a specific date, the latest date on which the limited liability company is to dissolve: (*If no date for dissolution is specified, there shall be no limit on the duration of the limited liability company.*)

3. The name and address of each person executing these articles of organization is as follows: *(State whether each person is executing these articles of organization in the capacity of a member, organizer or both. Note: This document must be signed by all persons listed here).*
Micheal A. Woods, CEO - Organizer
225 Patton Ave
Asheville, NC 28801

4. The street address and county of the initial registered office of the limited liability company is:

   Number and Street 225 Patton Ave

   City, State, Zip Code Asheville, NC 28801 County Buncombe

5. The mailing address, ***if different from the street address,*** of the initial registered office is:

6. The name of the initial registered agent is Western Carolina Rescue Ministries, Inc.

7. Principal office information: (*Select either a or b.)*

   a. ☒ The limited liability company has a principal office.

   The street address and county of the principal office of the limited liability company is:

   Number and Street 225 Patton Ave
   City, State, Zip Code Asheville, NC 28801 County Buncombe

   The mailing address, ***if different from the street address***, of the principal office of the corporation is:

   b. ☐ The limited liability company does not have a principal office.

8. Check one of the following:

__X__(i) ***Member-managed LLC***: all members by virtue of their status as members shall be managers of this limited liability company.

______(ii) ***Manager-managed LLC***: except as provided by N.C.G.S. Section 57C-3-20(a), the members of this limited liability company shall not be managers by virtue of their status as members.

9. This company is formed for both a business purpose and a charitable purpose that requires operation of the company in accordance with the requirements of N.C.G.S. Section 57C-2-01(d).

10. Any other provisions which the limited liability company elects to include are attached.

11. These articles will be effective upon filing, unless a date and/or time is specified:
____

This is the 21 day of Feb , 20 11

Micheal A. Woods
Signature

Micheal A. Woods, CEO Organizer

Type or Print Name and Title

NOTES:
1. **Filing fee is $125. This document must be filed with the Secretary of State.**

CORPORATIONS DIVISION P.O. Box 29622 RALEIGH, NC 27626-0622
July 2010 *(Form L3C-01)*

Instructions for Filing
LOW-PROFIT LIMITED LIABILITY COMPANY

Appendix V

WCRM Statement of Activities

WESTERN CAROLINA RESCUE MINISTRIES, INC.
Statement of Activities
For the Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	2011 Total
Public support and other revenues:			
Contributions	$ 1,041,855	$ 79,930	$ 1,121,785
USDA food	5,721		5,721
Thrift store sales	254,449		254,449
In-kind donations - food	307,522		307,522
In-kind donations - program supplies	15,451		15,451
In-kind donations - parking	7,200		7,200
Other income	12,666		12,666
Total public support and other revenues	1,644,864	79,930	1,724,794
Expenses:			
Program services	978,232		978,232
Supporting services	557,694		557,694
Total expenses	1,535,926		1,535,926
Increase (decrease) in net assets	108,938	79,930	188,868
Net assets, beginning of year	901,096		901,096
Net assets, end of year	$ 1,010,034	$ 79,930	$ 1,089,964

Appendix VI

Rural Revolution, L3C Articles of Organization

Tom Schedler Secretary of State	State of Louisiana Secretary of State	COMMERCIAL DIVISION 225.925.4704 Fax Numbers 225.932.5317 (Admin. Services) 225.932.5314 (Corporations) 225.932.5318 (UCC)

Name	Type	City	Status
RURAL REVOLUTION L3C	Low Profit Limited Liability Company	NEW ORLEANS	Active

Business: RURAL REVOLUTION L3C
Charter Number: 40630224G
Registration Date: 10/3/2010
State Of Origin:
Domicile Address
2209 STATE ST
NEW ORLEANS, LA 70118
Mailing Address
2209 STATE ST
NEW ORLEANS, LA 70118

Status

Status: **Active**
Annual Report Status:
File Date: 10/3/2010
Last Report Filed: N/A
Type: Low Profit Limited Liability Company

Registered Agent(s)

Agent:	KENDRA MORRIS
Address 1:	2209 STATE ST
City, State, Zip:	NEW ORLEANS, LA 70118
Appointment Date:	10/3/2010

Officer(s)

Additional Officers: No

Officer:	KENDRA MORRIS
Title:	Manager
Address 1:	2209 STATE ST
City, State, Zip:	NEW ORLEANS, LA 70118

Amendments on File

No Amendments on file

Print

Appendix VII

Sustainable Environmental Enterprises, L3C Articles of Organization

Tom Schedler
Secretary of State

State of Louisiana
Secretary of State

COMMERCIAL DIVISION
225.925.4704

Fax Numbers
225.932.5317 (Admin. Services)
225.932.5314 (Corporations)
225.932.5318 (UCC)

Name	Type	City	Status
SUSTAINABLE ENVIRONMENTAL ENTERPRISES, L3C	Low Profit Limited Liability Company	NEW ORLEANS	Active

Business:	SUSTAINABLE ENVIRONMENTAL ENTERPRISES, L3C
Charter Number:	40356718G
Registration Date:	11/22/2010
State Of Origin:	

Domicile Address

1939 7TH STREET
NEW ORLEANS, LA 70119

Mailing Address

1939 7TH STREET
NEW ORLEANS, LA 70119

Status

Status:	**Active**
Annual Report Status:	**In Good Standing**
File Date:	11/22/2010
Last Report Filed:	11/22/2011
Type:	Low Profit Limited Liability Company

Registered Agent(s)

Agent:	STACEY DANNER
Address 1:	2834 DUMAINE ST
City, State, Zip:	NEW ORLEANS, LA 70119
Appointment Date:	11/22/2010

Officer(s)

Additional Officers: No

Officer:	LEA KEAL
Title:	Manager
Address 1:	2834 DUMAINE ST
City, State, Zip:	NEW ORLEANS, LA 70119

Officer:	STACEY DANNER
Title:	Member
Address 1:	2834 DUMAINE ST
City, State, Zip:	NEW ORLEANS, LA 70119

Amendments on File

No Amendments on file

Print

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